

Annual Report 1976



Notice to Holders of Preferred Shares — Series A

Holders are reminded that each share of the Company's 4¾% Cumulative Redeemable Convertible Voting Preferred shares, Series A, with a par value of \$20 each, is convertible at the option of the holder into two Common shares of the Company.

However, this right to convert terminates on November 1, 1977 and will not be extended.

It should be noted that comparative dividend rates in 1976 were as follows:

One Preferred Share, Series A	— \$0.95
Two Common Shares	— 1.29

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Notice of Annual Meeting of Shareholders

The Annual Meeting of the Shareholders of Canadian Pacific Investments Limited will be held on Friday, April 29th, 1977, at Le Château Champlain, Place du Canada, Montreal, Quebec at 11:00 a.m. (daylight saving time, if operative), for the following purposes:

- a. to receive the Report of the Directors, accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31st, 1976;
- b. to elect directors;
- c. to appoint the auditors and to authorize the Board of Directors to fix their remuneration; and
- d. to transact such other business as may properly come before the meeting.

The Board of Directors has by resolution fixed the time, before which proxies to be used at the annual meeting or any adjournments thereof must be deposited at Montreal, Quebec, with the Company or the Montreal Trust Company as Agent for the Company, at twenty-four hours, excluding Saturdays and holidays, preceding the annual meeting or any adjournments thereof.

By order of the Board,
G.S. MacLean, Secretary.

Montreal, March 3rd, 1977.

Stock Holdings—at December 31, 1976

Common shares—outstanding 59,491,268, of which 50,000,000 were owned by Canadian Pacific Limited and the remainder by 11,123 shareholders, of whom 97.7% were Canadian registrants.

Preferred shares—Series A—outstanding 653,104, held by 6,575 registered shareholders, of whom 97.3% were Canadian registrants.

Transfer Agent and Registrar

Montreal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Stock Listings

Common Shares:
Montreal, Toronto and Vancouver Stock Exchanges

Preferred Shares, Series A:
Montreal, Toronto and Vancouver Stock Exchanges

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au secrétaire, Investissements Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Québec H3C 3E4.

Directors

- *†W. A. Arbuckle,
Chairman of the Company,
Celanese Canada Limited,
Montreal
- *F. S. Burbidge,
President,
Canadian Pacific Limited, Montreal
- F. E. Burnet,
Chairman and Chief Executive Officer,
Cominco Ltd., Vancouver
- *†A. M. Campbell,
Chairman,
Sun Life Assurance Company of Canada,
Montreal
- Robert W. Campbell,
Chairman of the Board and Chief Executive Officer,
PanCanadian Petroleum Limited,
Calgary
- John Macnamara,
President and Chief Executive Officer,
The Algoma Steel Corporation, Limited,
Sault Ste. Marie
- †Angus A. MacNaughton,
Vice-Chairman and Chief Executive Officer,
Genstar Limited, Montreal
- *W. Moodie,
President,
Canadian Pacific Investments Limited,
Montreal
- †S. E. Nixon,
Corporate Director and Financial Consultant,
Montreal
- *Paul L. Paré,
President and Chief Executive Officer,
Imasco Limited, Montreal
- H. M. Pickard,
Chairman,
Marathon Realty Company Limited,
Calgary
- *Ian D. Sinclair,
Chairman and Chief Executive Officer,
Canadian Pacific Limited, Montreal
- R. D. Southern,
President and Chief Executive Officer,
ATCO Industries Limited, Calgary
- W. J. Stenason,
Executive Vice-President,
Canadian Pacific Investments Limited,
Montreal
- *Member of Executive Committee
- †Member of Audit Committee

Officers

- Ian D. Sinclair,
Chairman and Chief Executive Officer,
Montreal
- W. Moodie,
President,
Montreal
- W. J. Stenason,
Executive Vice-President,
Montreal
- P. A. Nepveu,
Vice-President Finance and Accounting,
Montreal
- G. S. MacLean,
Secretary,
Montreal
- D. E. Sloan,
Treasurer,
Montreal

To the Shareholders

The Company's earnings of \$140.1 million in 1976 were \$1.9 million, or 1%, below the record level of 1975. This was deemed to be satisfactory in view of a faltering economic recovery and the disadvantage, throughout most of the year, of a strong Canadian dollar.

Earnings and dividends, compared with 1975, were:	1976	1975
Net income (millions)	\$140.1	\$142.0
Per Common share		
Net income	\$2.36	\$2.41
Dividends	64.5¢	62¢

On a fully diluted basis, which assumes that all the outstanding Preferred shares are converted, earnings per Common share amounted to \$2.30 in 1976.

The higher dividend rate was possible under Anti-Inflation Board regulations allowing increases after mid-October 1976. During the year 763,888 Common shares were issued on conversion of Preferred shares.

Although earnings in total were down only marginally, there were marked changes in certain sectors. The most significant decreases were in mines and minerals, involving metal and coal mining and fertilizer production, in iron and steel, and in hotels. Prices of zinc, lead and fertilizers were lower than in the previous year and a long strike sharply curtailed coal production. Earnings from metals and fertilizers were also adversely affected by the rise in the value of the Canadian dollar. Equipment problems plagued iron and steel operations and earnings were further impaired by rising costs and by a less favourable product mix. Income from hotels reflected both the sluggish economy and severe competition in certain hotel markets.

Improved earnings were achieved in oil and gas, chiefly due to higher prices; in logging, as a result of a non-recurring gain on sale of an investment and better log and lumber markets; and in real estate, due to an expanded portfolio of revenue properties and increased land sales. The consolidation of income from Steep Rock Iron Mines Limited also accounted for an increase in earnings. Investment income improved over 1975, when costs were written off in connection with participation in groups planning Arctic gas pipelines.

The Company's prospects for 1977 are encouraging. The rate of general economic growth being forecast for the year, though modest, is sufficient in the particular circumstances of the Company to justify optimism. A positive factor in the outlook is the likelihood that the value of the Canadian dollar will be lower than in 1976.

The Company's expectations for the highest earnings growth in 1977 are for oil and gas, where price increases are already in place, and for pulp and paper and B.C. coal mining operations, both of which should be strike-free this year. The only

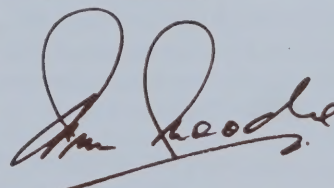
major labour negotiations coming up in 1977 that would affect subsidiary operations are those at Cominco's B.C. smelters, in the West Coast forest industry and at Algoma Steel's coal mines in West Virginia. In base metals, the outlook is best for lead, but demand for zinc is expected to strengthen. Markets for finished steel products are expected to improve as the year progresses, but significantly higher operating rates are not likely to be achieved until capital investment in Canada increases. Real estate should have another good year, and there could be an upturn in hotel business.

One of the major weaknesses in the outlook for the Canadian economy is apparent stagnation in capital investment. This situation is reflected in the 1977 capital programs of the Company's major subsidiaries, which in total are less than was spent in 1976. Part of that decline is due to completion of major expansion projects, such as those of Great Lakes Paper and Cominco. But part is also attributable to the unattractiveness of much new investment in Canada at present levels of costs, including taxes.

During 1976 the Company made acquisitions which gave it entry into a new field of business and greater scope in businesses in which it was already engaged. The new area is insurance. The Company purchased from Canadian Pacific Limited all its shares of Chateau Insurance Company, a Canadian company licensed to transact all classes of insurance other than life. The acquisition of control of Steep Rock Iron Mines Limited provides for expansion of activities in Iron and Steel, and the purchase of Baker Commodities, Inc., a U.S. rendering company, with operations in a number of Western states, expanded the scope of CanPac AgriProducts. All three acquisitions should contribute to increasing the Company's earnings in 1977.

The Directors wish to express their appreciation to all officers and employees in every field of the Company's interests for their success in meeting the exacting demands of the past year.

For the Directors,



President



Chairman and Chief Executive Officer
Montreal, March 3, 1977.

Oil and Gas

PanCanadian Petroleum Limited

PanCanadian had an excellent year in 1976, as shown by record earnings and the success of its exploration and development program.

Higher prices for oil, natural gas liquids and gas contributed significantly to the increased income. Crude oil and natural gas liquids production decreased by almost 6% from 1975, primarily because of marketing difficulties with heavy crude oil in the first three months of the year. Following submissions by PanCanadian and other heavy crude oil producers, the National Energy Board allowed a total export of up to 135,000 barrels a day of heavy and medium crude oils to the traditional markets in the northern United States. This is an interim measure, pending the announcement of a long term policy. It is hoped that under the long term policy PanCanadian will be able to maintain its oil production at year-end levels. Gas production was almost 4% higher than in 1975.

During 1976, 981 wells were drilled on lands in which PanCanadian has an interest, resulting in 97 oil wells, and 708 gas wells.

Considerable success was realized in Southern Alberta, which for many years has been the focus of PanCanadian's activities. At year end, operations were under way at five drilling locations in the Rocky Mountain Foothills. In addition, exploration was continued to establish PanCanadian's coal reserves.

In the United States, PanCanadian acquired, with partners, interests in five blocks in the Gulf of Alaska and on the East Coast outer continental shelf. Preparations are being made to drill wildcats on PanCanadian's acreage in the Gulf of Alaska and offshore California. Oil was discovered in a wildcat in Mississippi and production has commenced; further wells will be drilled in 1977 to evaluate this promising geological trend. PanCanadian is the operator of a group currently evaluating the hydrocarbon potential of the Overthrust Belt of the Rocky Mountain states.

Three wells were drilled and abandoned in Iran, completing all PanCanadian's work commitments. A wildcat offshore Indonesia was also abandoned. Preparations to drill offshore Greenland are under way and two wells are planned for 1977.

Comparative year-end figures of PanCanadian's net after royalty proven and probable reserves were as follows:

	1976	1975
Crude oil and natural gas		
liquids—million barrels	165.6	185.9
Natural gas—billion cubic feet	2,353	2,384
Sulphur—million long tons	3.2	4.8
Coal—million short tons	860	485

Higher provincial royalties in Alberta and Saskatchewan accounted for most of the decrease in net crude oil and natural gas liquids reserves.

Due to adverse conditions that developed in 1976 with respect to the sale in the United States of production from the Brooks Ammonia Project, it was decided to defer on-site construction. As a result,

PanCanadian amortized \$8 million of equipment and design costs of a total of \$42 million expended on this project. The company's future course of action will depend on the world ammonia market.

The market value of the Company's holding in PanCanadian, representing an 87.1% interest, was \$679.8 million at the end of 1976, based on the closing market price of \$25 a share.

Panarctic Oils Ltd.

Panarctic drilled nine wells during 1976, and two more were under way at year end. Gas was encountered off Ellef Ringnes Island and two wells on Cameron Island have tested oil at high rates.

At year end, Canadian Pacific Investments held a 12.9% net interest in Panarctic through two of its subsidiaries, PanCanadian Petroleum and Cominco.

Mines and Minerals

Cominco Ltd.

The Company's net income from Cominco, after minority interests, was \$24.4 million compared with \$39.7 million in 1975. The decreased earnings reflected the combination of lower prices for zinc, lead, chemical fertilizers and potash, escalation in operating costs and unfavourable exchange rates. While the price for lead firmed in the second half of 1976, the world price for zinc remained at depressed levels. Cominco's potash mine in Saskatchewan earned an operating profit, but continued in a loss position after paying the high mineral reserve and other taxes and royalties exacted by the Government of Saskatchewan.

Earnings of Cominco's wholly-owned U.S. subsidiary, Cominco American Incorporated, were down from last year's record level, despite good sales volume. A drop in the price of phosphate fertilizers and potash early in the year adversely affected returns from those products.

The Black Angel Mine in Greenland, in which Cominco has a 63% share, continued to operate successfully. Earnings from the 69%-owned Pine Point Mines Limited were down significantly because of lower prices for its zinc concentrates and increased stripping costs.

Several major projects were either completed or nearing completion at the end of 1976. The new ammonia-urea complex south of Calgary was coming on stream at year end. A new 5,400 foot shaft was sunk at the gold-producing Con Mine in the Northwest Territories and will be in full operation later this year. In Spain, at the 47%-owned Rubiales zinc-lead mine, production is expected in the first quarter of 1977. Work continued during the year on the Que River zinc-lead deposit in Tasmania, with design work well advanced on the proposed development shaft.

Cominco continued its high level of exploration activity in 1976. Work was principally in Canada and the continental United States, and major programs were under way in Australia, Spain, Alaska and Greenland.

Canadian Pacific Investments Limited

During the year Cominco issued \$50 million of \$2.00 tax deferred preferred shares of a par value of \$25 per share, proceeds of which were used for capital expenditures and working capital.

At the end of 1976 the market value of the Company's holding of Cominco common shares, representing a 53.9% interest, was \$334.5 million, based on the closing market price of \$36½.

Fording Coal Limited

Fording Coal earned \$9.0 million in 1976, compared with \$17.7 million in 1975. The Company's share of these earnings, including its equity in Cominco's 40% share, amounted to \$7.3 million, or \$7.1 million less than in 1975. The Company also received ownership payments from Fording of \$2.0 million, compared with \$2.9 million in the previous year.

The reduction in earnings was attributable to a strike at the mine from May until September, and to a shortage of skilled tradesmen after work resumed. Coal sales amounted to 1.8 million long tons for the year, compared with 2.7 million in 1975.

A program to increase production capability from three to four million long tons a year continued, with completion of the plant scheduled for early 1977. Because of a slowdown in steel production in Japan, markets there for metallurgical coal are soft. Additional markets are being sought for the projected increase in coal production.

Early in 1977 Fording and CanPac Minerals announced that during the year they would merge in order to bring their coal properties under one administration.

CanPac Minerals Limited

The Company's net income from CanPac Minerals, including its equity in Cominco's 40% share, amounted to \$755,000, compared with \$768,000 in 1975.

During 1976, an active exploration program for coal deposits was continued in Alberta, British Columbia and Nova Scotia. An application made jointly with Calgary Power Ltd. to construct and operate a coal mine and an associated generating plant was rejected by the Alberta Government.

Forest Products

The Great Lakes Paper Company, Limited

The Company's net income from Great Lakes Paper, after minority interest, was \$2.7 million, compared with \$3.6 million in 1975. The decrease was attributable largely to cost inflation that outstripped such increases in prices as the condition of markets allowed and to the change from a premium on the U.S. dollar in 1975 to a discount in 1976. Earnings in both years were reduced by a strike of mill workers that began in September 1975 and ended in late February 1976.

Because the period of shutdown due to the strike was shorter in 1976, shipments of all products were higher. Newsprint price was increased \$25 per ton on March 16, 1976, and a

further increase of \$20 per ton went into effect on December 1. Prices of chemical pulp did not advance during the year. Firm markets kept prices for stud lumber at a good level, while the waferboard market was generally weak and prices depressed.

With the start-up in November of the new 250,000 ton-per-year bleached kraft pulp mill, Great Lakes completed its diversification and expansion program that began in 1973. This program included not only the new pulp mill, but also the doubling of the capacity of the stud lumber mill, construction of a waferboard—particleboard plant and a considerable expansion of roads, camps and harvesting facilities to ensure the increased volume of wood required by the expanded operations.

The Company's holding of Great Lakes Paper, representing a 55.6% interest, had a market value of \$62.2 million at the end of 1976, based on the closing market price of \$31 per share.

Pacific Logging Company Limited

Earnings of Pacific Logging amounted to \$2.5 million for the year, compared with a loss of \$1.8 million in 1975. Results in 1976 included a gain of \$1.5 million on disposal of a share interest in a lumber mill. Favourable weather and the absence of strikes resulted in an increase in log production to 264 million board feet, from 155 million board feet in 1975. However, continued over-supply in world markets for pulp resulted in supplies of pulp logs, and of pulp chips, exceeding demand, which largely accounted for the modest level of the year's income.

Saltair Lumber Company incurred a loss in 1976, which reflected disruptions caused by its expansion program as well as unsatisfactory markets for lumber and wood chips. The expanded sawmill was in full production early in 1977. Chemainus Towing Company showed a satisfactory profit in its first full year of operation as a subsidiary company, and progress continued on modernization of its tugboat fleet.

Iron and Steel

The Algoma Steel Corporation, Limited

CPI's share of Algoma's income, after minority interest, amounted to \$10.1 million, compared with \$21.7 million in 1975. Although Algoma's production of iron and raw steel and shipments of steel products were higher than in 1975, its earnings were significantly lower. A pre-tax loss for the year was more than offset by a large income tax credit and by the company's interest in the earnings of Dominion Bridge Company, Limited.

A substantial part of the decline in earnings was traceable to equipment problems at the steelworks and to the re-purchase of seamless tube inventories from a distributor upon the takeover by Algoma of the marketing of its own tubular products. Also contributing to the reduction in earnings were increases in costs that could not be

wholly recovered from steel product price increases and a less favourable product mix. Costs of labour, energy and raw materials were higher, and depreciation and interest charges were up as well. Prices were increased on all the company's rolled steel products, but were limited in every case by generally weak market conditions.

Structural steel continues to be offered in the Canadian market by offshore producers at distress prices, and Algoma has requested the Canadian Government to initiate an investigation into the apparent dumping of wide flange beams.

Lower earnings and poor market prospects necessitated severe curtailment of Algoma's capital expenditures during the year. This affected several major projects, one of which was the continuous slab casting facility that is now expected to be in production in mid-1979.

Late in 1976 a coke oven battery that had been in operation only a year had to be shut down for rebuilding. It is expected to be out of service throughout 1977, but sufficient coke can be produced in other batteries to meet 1977 forecast production of finished rolled steel products. Legal action has been taken against the builder, seeking recovery of certain costs of unsuccessful repairs, the cost of the rebuild and other damages.

Dominion Bridge Company, Limited, 43%-owned by Algoma, contributed \$15.2 million to Algoma's earnings in 1976 compared with \$12.4 million in the prior year. During the year CPI acquired an additional 46,400 common shares in Dominion Bridge, which brought its direct holding at year end to 2.4% of the outstanding stock. This corporation's international business has been expanding rapidly and making an increasing contribution to earnings. Its U.S. subsidiary, AMCA International Corporation, has been diversifying and prospects for future growth are considered to be excellent.

During 1976, Algoma issued \$60 million, 8% tax deferred preference shares of a par value of \$25 per share, the proceeds of which were used to reduce short term borrowings.

Purchase by the Company of an additional 51,200 common shares of Algoma in 1976 brought the total holding to 51.5% of Algoma's issued common stock. The market value of this holding, based on the 1976 closing price of \$19¼ per common share, was \$115.6 million.

Steep Rock Iron Mines Limited

The Company's income from Steep Rock amounted to \$2.5 million. Pellet production for the year totalled 1.3 million tons, of which 1.1 million tons were shipped to Algoma Steel.

No firm decision has yet been made with regard to continuation of operations beyond 1979 at the present Atikokan site. Steep Rock and Algoma are investigating the potential of another iron ore property near Atikokan. Development of the Lake St. Joseph property is unlikely in the near future, chiefly because of escalation in construction costs and the recession in the North American steel industry.

At year end, the Company's holding of shares of Steep Rock Iron Mines Limited, representing a 68.1% interest, had a market value of \$11.1 million, based on the closing market price of \$2.02 per share.

Real Estate

Further growth of Marathon Realty Company Limited produced a record net income in 1976. This achievement reflected additional earnings from recent acquisitions and newly completed projects, higher returns from longer established holdings, and an increase in land sales.

Expanding its interest in shopping centres during the year, Marathon purchased a 75% interest in the Village Green Mall in Vernon, B.C., and began an expansion and renovation program at the Harbour Park Shopping Centre in Nanaimo, which is expected to be completed in April 1977. Construction of the Merivale Mall Shopping Centre in Ottawa is nearing completion; it is fully leased, and scheduled to open in April 1977. A site for future development of another shopping centre in the Ottawa area has been purchased. In Quebec City, Marathon acquired Place Laurier, one of the largest shopping centres in Canada.

In the residential sector, 114 of the 118 condominium units in Phase II of the Arbutus Village development in Vancouver had been sold by year end. During the year, Marathon acquired full ownership of Shaughnessy Place, a luxury condominium project, and began construction of an 89-unit condominium project, both in Vancouver.

Marathon's industrial portfolio, including its majority interest in Marathon Aviation Terminals Limited, consisted at year end of 122 buildings with a leasable area of almost six million square feet. Four multi-tenant industrial buildings were completed in 1976—two in Edmonton, one in Montreal, and one in Toronto.

A modern 200,000 square foot office building was purchased in Toronto and sites for future development of office complexes were acquired in Burnaby, B.C. and in suburban Toronto. Marathon's plan for the redevelopment of the downtown King-Simcoe block was approved by Toronto City Council. In addition to allowing development by Marathon of one million square feet of office space, the plan provides a site for the new Massey Hall, a possible city-built housing complement and a public park.

In 1976 Marathon commenced expansion into the United States. By year end, negotiations for the acquisition of an office development site in downtown San Francisco were near conclusion, and plans for a half-million square foot project were well under way.

Hotels and Food Services

1976 was another difficult year for the Canadian hospitality industry and for Canadian Pacific Hotels

Limited, whose earnings of \$10,000 were down from \$3.3 million in 1975. To the overall problems of slow economic recovery and inflation, which hampered growth of both business and tourist travel, was added the special problem of an over-supply of rooms in many major Canadian cities as a result of the opening of new hotels.

CP Hotels continued to broaden its international operations. The Frankfurt Plaza Hotel in Frankfurt, Germany, was opened and a management contract signed for the Curaçao Plaza Hotel in Curaçao, Netherlands Antilles. Further expansion overseas is planned in 1977, and agreement has been reached on management contracts for the Tiberias Plaza Hotel in Tiberias, Israel, and the El Mirador Hotel in Acapulco, Mexico.

Within Canada, the company expanded its food service operations with the opening of three restaurants and two fast-food outlets in the newly completed Royal Bank Plaza Shopping Mall in Toronto. Chateau Lake Louise and the Banff Springs Hotel, which were formerly managed, were purchased from Canadian Pacific Limited, and an agreement was entered into to acquire full ownership of the Red Oak Inn in Thunder Bay, Ontario. Construction began on the Chateau Talbot in London, Ontario, and on the hotel at the new Calgary International Airport. Both hotels, and an adjoining flight kitchen at Calgary, are expected to be completed early in 1978.

Strikes delayed construction of the hotel at Montreal's Mirabel International Airport and the opening is now expected in mid-1977. The major restoration program at Le Château Frontenac is continuing on schedule, and similar programs are planned for Chateau Lake Louise, the Banff Springs Hotel, the Palliser and the Hotel Saskatchewan.

Finance

CanPac Leasing Limited

Net income from CanPac Leasing amounted to \$1.0 million, compared with \$818,000 in 1975. Lease receivables increased substantially during 1976, and of the total outstanding at year end, over 75% were with companies outside the Canadian Pacific group.

Proposed changes in the Bank Act would, if enacted, create a significant new source of competition for the company.

Canadian Pacific Securities Limited

Total borrowings of Canadian Pacific Securities in 1976 to provide financing for various companies in the CP Investments group and for money market operations increased by \$109.9 million. Of this amount, \$70 million came from the placement of two \$35 million issues of Guaranteed Notes in the Euro-Canadian dollar market. The first, in January 1976, carried a rate of 9¼% and matures in six years, while the second, issued in April 1976, was at 9¼%, for a period of seven years. The increase in short term promissory notes during the year was \$41.9 million.

Chateau Insurance Company

On July 31, the Company purchased from Canadian Pacific Limited all its shares of Chateau Insurance Company, which was incorporated in 1974 and licensed to write all types of insurance except life.

Chateau's operations were expanded significantly in May, when it took over the Canadian business of Aetna Insurance Company. Regional offices were established in Montreal, Toronto and Vancouver and the company is now represented by some 300 agencies and brokers across Canada. Gross premiums written in 1976 amounted to \$16.5 million, compared with \$635,000 in 1975.

Other Operations

CanPac AgriProducts Limited

Earnings of CanPac AgriProducts amounted to \$837,000, compared with a loss of \$371,000 in 1975. The improvement reflected the recovery of markets for protein animal feeds and tallow from the depressed levels of 1975 and the acquisition of Baker Commodities, Inc., effective November 30. Baker is a major U.S. rendering company with operations in New Mexico, Arizona, California, Oregon and Washington and interests in Korea and Hawaii.

Early in 1977, arrangements were completed for the sale of the company's interest in Steirian Rendering Company of Austria.

Commandant Properties, Limited

Commandant initiated a real estate program on a limited scale during the year with the building of a few residential units designed to test the market.

The company continued its forest activities, involving the cutting and selling of pulpwood and sawlogs.

Investment Income

Investment income was up \$8.8 million from 1975, when \$6.2 million of expenditures in respect of the Company's participation in groups planning Arctic gas pipelines were written off. The other principal factor in the increase was a gain on sales of investments in contrast to a loss in the previous year.

During the year, 61,700 common shares of MICC Investments Limited were sold and 70,000 preferred shares of TransCanada PipeLines Limited were converted into 231,000 common shares.

Geographic Distribution of Investment

At year end, 90% of the Company's net property investment of \$2,452 million was in Canada, 6% was in the United States and 4% in other countries. A table showing the distribution of the investment in Canada by regions is given on page 20.

Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements of Canadian Pacific Investments Limited (CPI) include the accounts of all subsidiary companies. The principal subsidiaries, classified by line of business, are as follows:

		Percentage Ownership
Oil and gas	PanCanadian Petroleum Limited	87.10%
Mines and minerals	Cominco Ltd.	53.93%
	Fording Coal Limited	} 60% CPI and 40% Cominco
	CanPac Minerals Limited	
Forest products	Pacific Logging Company Limited	100%
	The Great Lakes Paper Company, Limited	55.55%
Iron and steel	The Algoma Steel Corporation, Limited	51.46%
	Steep Rock Iron Mines Limited (acquired February 23, 1976)	68.13%
Real estate	Marathon Realty Company Limited	100%
Hotels and food services	Canadian Pacific Hotels Limited	100%
Finance	Canadian Pacific Securities Limited	100%
	CanPac Leasing Limited	100%
	Chateau Insurance Company (acquired from Canadian Pacific Limited July 31, 1976)	99.94%
Other operations	CanPac AgriProducts Limited	100%
	Baker Commodities, Inc.	100%
	(acquired November 30, 1976)	
	Commandant Properties, Limited	100%

Algoma Steel has a 43.26% interest and CPI a 2.36% interest in Dominion Bridge Company, Limited, which is accounted for by the equity method. The equity in net income of Dominion Bridge is included in sales and operating revenue of Iron and Steel.

Steep Rock supplies iron ore pellets to Algoma Steel. In reporting the results of iron and steel operations in the statement of consolidated income, such sales (\$27,482,000 in 1976) have

been eliminated from sales and operating revenue and from expenses. Inter-company interest charges, amounting to \$27,867,000 in 1976 and \$16,355,000 in 1975, have not been eliminated in the statement of consolidated income in order to present fairly the results by activity. CPI's net income is not affected by this practice. There are no other significant inter-company charges within the CPI group of companies.

Foreign exchange

Current assets and current liabilities have been translated from foreign currencies into Canadian dollars at current rates. Fixed assets and accumulated depreciation and long term debt have been translated at historical rates. Revenues and

expenses (except depreciation, which is translated at historical rates) have been translated at average rates in effect during the year. Gains or losses on exchange are included in income.

Inventories

Raw materials and products of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Stores and materials are valued at cost less appropriate allowances for obsolescence.

Finished products and work in process of iron

and steel operations are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to forest product operations) are valued at the lower of cost (generally average cost) and net realizable value.

Lease revenue	The excess of aggregate rentals less lease acquisition costs over the cost of leased assets is recorded as income over the term of the lease in decreasing amounts pro rata to the declining	balance of the investment not yet recovered. All leases are fully funded and any gains arising from residual values of leased assets are reflected in earnings only when realized.
Accounting for oil and gas properties	The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development	of oil and gas reserves are capitalized. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves.
Accounting for mining properties	Expenditures on general mineral exploration are charged to earnings as incurred. Expenditures incurred in the investigation of identified properties and in the development of mines are capitalized.	Capitalized expenditures, together with the costs of certain investments in mining companies, are amortized against earnings by charges for depletion based on the mineral resources position.
Accounting for iron and steel properties	Depreciation of manufacturing plant and equipment is provided on the straight-line basis at rates intended to write off these assets over their estimated economic lives. Mining equipment, mine development and deferred overburden removal costs are amortized on a unit of production basis over the estimated recoverable iron ore and coal reserves. Expenditures on exploration for, investigation of, and holding, raw material properties, and costs of	research, development and start-up of new production facilities, are charged to earnings as incurred. Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.
Accounting for real estate properties	Land is carried at cost. Development costs and carrying costs, net of incidental revenue, are capitalized for land currently being developed or on which development is expected within five years, providing the book value of the land does not exceed market value. Carrying costs of all other land are included in operations. Buildings and construction in progress are carried at cost, including interest during construction, pre-completion operating costs less any	revenue, and other direct development expenses. The sinking fund method of providing for depreciation is used for major real estate developments. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years.
Accounting for other properties	Depreciation and amortization of other properties are charged to earnings, generally on the straight-line basis, over the estimated economic lives of the facilities involved.	Interest on debt incurred to finance major expansion programs under forest products and hotels and food services is capitalized during the construction period.
Pensions	In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being	funded in equal annual instalments to 1989, 1991 and 1992.
Income taxes	The companies follow the tax allocation basis of accounting for income taxes, whereby tax provisions are based on accounting income and taxes	relating to timing differences between accounting and taxable income are deferred.
Earnings per share	Earnings per common share are calculated using the weighted average number of shares outstanding during the year. Fully diluted earnings	per share are calculated on the assumption that all preferred shares are converted at the beginning of the year.

Statement of Consolidated Income

For the Year ended December 31		1976	1975
		(in thousands)	
Oil and Gas	Gross operating revenue	\$206,941	\$159,590
	Expenses including income taxes	121,908	90,927
		85,033	68,663
	Interest of outside shareholders	10,969	8,858
	Net income	74,064	59,805
Mines and Minerals	Gross operating revenue	841,918	854,117
	Expenses including income taxes	776,815	753,822
		65,103	100,295
	Interest of outside shareholders	32,743	46,476
	Net income	32,360	53,819
Forest Products	Sales and operating revenue	182,130	128,917
	Expenses including income taxes	174,728	124,288
		7,402	4,629
	Interest of outside shareholders	2,166	2,857
	Net income	5,236	1,772
Iron and Steel	Sales and operating revenue	609,558	558,914
	Expenses including income taxes	582,350	515,962
		27,208	42,952
	Interest of outside shareholders	13,796	21,097
	Net income	13,412	21,855
Real Estate	Gross rentals and other income	81,612	59,607
	Expenses including income taxes	70,859	51,927
		10,753	7,680
	Interest of outside shareholders	330	18
	Net income	10,423	7,662
Hotels and Food Services	Gross operating revenue	137,469	105,976
	Expenses including income taxes	137,459	102,646
	Net income	10	3,330
Finance	Gross operating revenue	58,428	38,381
	Expenses including income taxes	56,129	37,007
	Net income	2,299	1,374
Other Operations	Gross operating revenue	20,391	10,348
	Expenses including income taxes	19,590	10,757
	Net income	801	(409)
Investment Income	Gross income	11,231	10,237
	Expenses including income taxes	9,710	17,470
	Net income	1,521	(7,233)
Net Income		\$140,126	\$141,975
Earnings per Common Share	Net income	\$2.36	\$2.41
Fully Diluted Earnings per Common Share		2.30	

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Income

For the Year ended December 31		1976	1975
		(in thousands)	
	Balance, January 1	\$403,412	\$298,915
Add:	Net income for the year	140,126	141,975
		543,538	440,890
Deduct:	Commission and expense relating to issuance of preference shares by subsidiary companies	1,859	—
	Dividends		
	4¾% Preferred shares	809	1,163
	Common shares (per share—1976 - 64½¢; 1975 - 62¢)	38,270	36,315
	Total dividends	39,079	37,478
	Balance, December 31	\$502,600	\$403,412

Statement of Changes in Consolidated Financial Position

For the Year ended December 31		1976	1975
		(in thousands)	
Source of Funds	Net income for the year	\$140,126	\$141,975
	Add/(Deduct)		
	Depreciation, depletion and amortization	151,109	127,407
	Deferred income taxes	17,728	45,490
	Equity in net earnings of associated company	(15,753)	(12,574)
	Dividends from associated company	4,726	3,949
	Outside shareholders' interest in income of subsidiaries	60,004	79,306
	Funds from operations	357,940	385,553
	Sales of investments	4,911	6,443
	Issuance of long term debt	335,667	423,662
	Issuance of preference shares by subsidiaries	110,000	—
	Proceeds from disposal of properties	11,955	8,259
	Working capital of subsidiaries acquired and consolidated	17,983	—
		\$838,456	\$823,917
Application of Funds	Additions to properties	\$531,122	\$500,887
	Additions to investments	24,067	10,460
	Additions to lease receivables (net)	14,578	21,114
	Investment in subsidiaries acquired and consolidated	36,349	—
	Reduction in long term debt	126,386	178,248
	Dividends declared	39,079	37,478
	Dividends paid outside shareholders of subsidiaries	39,879	41,610
	Sundries (net)	20,864	(3,326)
	Increase in working capital	6,132	37,446
		\$838,456	\$823,917

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

Assets

December 31

1976

1975

(in thousands)

Current Assets

Cash and temporary investments, at cost (approximates market)	\$ 212,212	\$ 249,395
Deposits and demand loans (interest bearing)—Canadian Pacific Limited and subsidiaries	78,921	67,606
Dividends and other accrued interest receivable	3,824	4,691
Accounts receivable	301,355	258,090
Inventories	425,654	339,491
Prepaid expenses	19,255	15,754
	1,041,221	935,027

Receivables under Leases

Amount due under lease agreements after one year	121,065	99,892
Less: Deferred income	33,477	26,882
	87,588	73,010

Investments

Portfolio, at cost (market value \$212,469,000; 1975—\$186,934,000)	216,814	217,990
Other	198,243	165,201
	415,057	383,191

Properties, at cost

Oil and gas	601,710	484,526
Mines and minerals	1,011,682	873,729
Forest products	493,027	408,377
Iron and steel	963,802	857,524
Real estate	375,362	278,785
Hotels and food services	155,620	132,611
Other operations	18,028	10,117
	3,619,231	3,045,669

Less: Accumulated depreciation, depletion and amortization	1,167,309	987,219
	2,451,922	2,058,450

Other Assets and Deferred Charges

88,535 60,885

\$4,084,323 \$3,510,563

Auditors' Report to the Shareholders of Canadian Pacific Investments Limited:

We have examined the consolidated balance sheet of Canadian Pacific Investments Limited and subsidiary companies as at December 31, 1976 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for the year then ended. Our examination of the financial statements of Canadian Pacific Investments Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied upon the reports of the auditors who have examined the

Price Waterhouse & Co.,
Chartered Accountants,
Montreal, Quebec, March 2, 1977.

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

financial statements of the other subsidiaries, which include Cominco Ltd., The Algoma Steel Corporation, Limited, The Great Lakes Paper Company, Limited and Steep Rock Iron Mines Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Consolidated Balance Sheet

Liabilities

December 31		1976	1975
		(in thousands)	
Current Liabilities			
	Bank loans	\$ 114,238	\$ 102,614
	Accounts payable and accrued charges—		
	Canadian Pacific Limited	5,104	4,384
	Other	311,886	259,348
	Notes and accrued interest payable	304,041	273,269
	Income and other taxes payable	48,073	37,348
	Dividends payable	20,108	18,330
	Long term debt maturing within one year	114,325	122,420
		917,775	817,713
Deferred Liabilities		21,316	26,667
Long Term Debt		1,200,526	976,653
Outside Shareholders' Interest in Subsidiary Companies			
	PanCanadian Petroleum Limited	30,101	22,717
	Cominco Ltd.	288,637	233,048
	The Great Lakes Paper Company, Limited	28,724	26,561
	The Algoma Steel Corporation, Limited	249,669	188,605
	Steep Rock Iron Mines Limited	11,156	—
	Other	699	391
		608,986	471,322
Deferred Income Taxes		318,576	300,252
Shareholders' Equity			
	Capital stock		
	Preferred shares		
	Authorized—12,500,000 shares of a par value of \$20 each		
	Issued —653,104 (1975—1,035,048)		
	4¼% Cumulative Redeemable		
	Convertible Voting, Series A	13,062	20,701
	Common shares		
	Authorized—100,000,000 shares without nominal or par value		
	Issued —59,491,268 (1975—58,727,380) shares	419,682	412,043
	Paid-in surplus	81,800	81,800
	Retained income	502,600	403,412
		1,017,144	917,956
		\$4,084,323	\$3,510,563

Approved on behalf of the Board:

Ian D. Sinclair, Director

W. Moodie, Director

Other Financial Information

		1976	1975
		(in thousands)	
Depreciation, Depletion and Amortization Charged to Expenses	Oil and gas	\$ 32,174	\$ 19,205
	Mines and minerals	57,688	57,343
	Forest products	16,097	12,718
	Iron and steel	34,612	29,837
	Real estate	4,118	2,861
	Hotels and food services	5,605	4,703
	Other operations	815	740
		\$151,109	\$127,407
The amount of depletion charged to income for the year 1976 was \$27,846,000 (1975—\$27,270,000) and the accumulated depletion at December 31, 1976 was \$212,327,000.			
Interest Expense		1976	1975
		(in thousands)	
	Interest on long term debt	\$101,600	\$ 84,501
	Interest on short term debt	33,985	23,335
		\$135,585	\$107,836
Interest capitalized on funds borrowed to finance capital projects amounted to \$17,373,000 (1975—\$10,592,000).			
Income Taxes		1976	1975
		(in thousands)	
	Oil and gas	\$ 34,821	\$ 33,587
	Mines and minerals	45,929	86,182
	Forest products	6,169	3,582
	Iron and steel	(22,823)	(9,559)
	Real estate	5,942	4,613
	Hotels and food services	156	2,838
	Finance	1,982	1,250
	Other operations	554	(68)
	Investment income	26	13
	Total (including deferred income taxes of 1976—\$17,728,000; 1975—\$45,490,000)	\$ 72,756	\$122,438

Other Financial Information

		1976	1975
		(in thousands)	
Inventories	Oil and gas		
	Product	\$ 6,686	\$ 3,371
	Stores and materials	4,898	3,076
		11,584	6,447
	Mines and minerals		
	Raw materials and products	121,529	122,918
	Stores and materials	41,968	38,921
		163,497	161,839
	Forest products		
	Raw materials and products	31,686	22,919
	Stores and materials	10,881	9,366
		42,567	32,285
	Iron and steel		
	Raw materials and products	164,117	114,580
	Stores and materials	18,279	16,377
		182,396	130,957
	Real estate		
	Condominiums held for sale	8,986	2,014
	Stores and materials	1,810	434
		10,796	2,448
	Hotels and food services		
	Materials and supplies	7,461	5,388
	Other operations		
	Raw materials and products	7,353	127
		\$425,654	\$339,491

Investment Portfolio as at
December 31, 1976

	Number of shares	Percentage of outstanding voting shares	Cost	Approximate market value
			(in thousands)	
Common Stocks				
Husky Oil Ltd.	354,000	3.54	\$ 4,053	\$ 7,214
MacMillan Bloedel Limited	2,849,600	13.40	82,560	66,624
MICC Investments Limited	348,800	6.10	1,597	2,965
Norcen Energy Resources Limited	358,200	1.61	5,015	4,255
Rio Algom Limited	1,331,956	9.86	30,823	37,628
TransCanada PipeLines Limited	4,732,457	12.43	56,203	62,705
Union Carbide Canada Limited	825,300	8.25	18,375	15,681
Other			6,449	5,469
			205,075	202,541
Preferred Stocks			3,924	2,290
Bonds, Debentures and Notes			7,815	7,638
			\$216,814	\$212,469

Other Investments

	1976	1975
	(in thousands)	
Dominion Bridge Company, Limited, at cost plus equity in undistributed net income	\$ 76,184	\$ 64,282
Others, at cost:		
Tara Exploration and Development Company Limited	26,903	26,903
Panarctic Oils Ltd.	33,007	27,190
Tilden Iron Ore Company	19,811	18,725
Other	42,338	28,101
	\$198,243	\$165,201

Other Financial Information

Properties and Accumulated
Depreciation, Depletion
and Amortization

	1976		1975	
	(in thousands)			
	Cost	Accumulated depreciation, depletion and amortization	Net	Net
Oil and gas				
Equipment	\$ 163,563	\$ 51,997	\$ 111,566	\$ 82,080
Petroleum, natural gas and mineral properties	438,147	118,388	319,759	263,945
	601,710	170,385	431,325	346,025
Mines and minerals				
Land, buildings and equipment	795,303	283,955	511,348	427,727
Mining properties and development	216,379	84,137	132,242	126,835
	1,011,682	368,092	643,590	554,562
Forest products				
Land and improvements	3,504	—	3,504	3,210
Buildings and equipment	404,349	139,963	264,386	194,625
Timberlands, leases and licences	85,174	12,812	72,362	73,486
	493,027	152,775	340,252	271,321
Iron and steel				
Manufacturing plants	834,146	348,477	485,669	464,486
Raw material properties	129,656	65,690	63,966	53,081
	963,802	414,167	549,635	517,567
Real estate				
Land	102,004	—	102,004	67,346
Buildings	261,136	21,783	239,353	185,773
Construction in progress	12,222	—	12,222	7,549
	375,362	21,783	353,579	260,668
Hotels and food services				
Land	4,791	—	4,791	4,811
Buildings and equipment	150,829	37,214	113,615	95,786
	155,620	37,214	118,406	100,597
Other operations				
Land	4,447	—	4,447	—
Buildings and equipment	13,581	2,893	10,688	7,710
	18,028	2,893	15,135	7,710
	\$3,619,231	\$1,167,309	\$2,451,922	\$2,058,450

Long Term Debt

	1976	1975
	(in thousands)	
Canadian Pacific Investments Limited		
6¼% Income Debentures due 1976	\$ —	\$ 5,000
5½% Income Debentures due 1977	10,000	—
6½% Income Debentures due 1977	13,000	13,000
7¼% Income Debentures due 1977-1979	19,000	40,900
5¾% Income Debentures due 1978-1979	18,500	16,000
7½% Income Debentures due 1977-1979	8,700	12,700
5½% Income Debentures due 1979	8,700	—
6% Income Debentures due 1979	2,800	15,800
Bank loan due 1978	5,000	5,000
The Algoma Steel Corporation, Limited		
5¼% Sinking Fund Debentures due 1978	10,875	11,660
7% Sinking Fund Debentures due 1987	24,000	25,200
8¾% Sinking Fund Debentures due 1991	32,695	34,000
10% Sinking Fund Debentures due 1994	50,000	50,000
Carried forward	\$203,270	\$229,260

Other Financial Information

	1976	1975
	(in thousands)	
Long Term Debt		
(continued)		
Brought forward	\$ 203,270	\$ 229,260
The Algoma Steel Corporation, Limited (continued)		
11% Sinking Fund Debentures due 1995	65,000	65,000
8½% Series A notes due 1991	22,000	22,000
Short term—convertible into term loans to 1977	50,000	50,000
Other	15,562	5,452
Canadian Pacific Hotels Limited		
8½% First Mortgage Sinking Fund Bonds, Series A due 1992	20,000	20,000
11½% First Mortgage Sinking Fund Bonds, Series B due 1995	30,000	30,000
Sundry—due 1977-1985	11,834	13,543
Canadian Pacific Securities Limited		
7% bank loan due 1979	25,000	25,000
9½% Sinking Fund Debentures due 1990	23,500	24,250
9¾% Sinking Fund Debentures due 1990	37,600	38,800
8¼% Sinking Fund Debentures due 1993	15,000	15,000
10½% Debentures due 1984	30,000	30,000
10½% Promissory note due 1980	5,000	5,000
9¾% Guaranteed notes due 1981	35,000	—
9¼% Guaranteed notes due 1983	35,000	—
CanPac Leasing Limited		
Bank loans due 1977-1980	14,404	18,781
Cominco Ltd.		
8½% Sinking Fund Debentures due 1991	61,740	64,850
10½% Sinking Fund Debentures due 1995	60,000	60,000
Bank loans due 1977-1984	34,777	27,660
Notes due 1982-1995	49,224	—
Subsidiaries of Cominco Ltd.		
Sundry indebtedness	61,843	71,355
Fording Coal Limited		
Bank loans due 1977-1978	31,010	48,029
The Great Lakes Paper Company, Limited		
First Mortgage Bonds—		
8% Sinking Fund Bonds, series B, maturing 1989	17,060	17,650
11¼% Sinking Fund Bonds, series C, maturing 1995	35,000	35,000
Marathon Realty Company Limited		
Sundry loans and mortgages payable 1977-2006	131,187	56,138
Bank loans due 1977-1983	26,973	28,625
PanCanadian Petroleum Limited		
Bank loans due 1977-1984	55,429	39,946
8½% Sinking Fund Secured Debentures due 1992	25,000	25,000
8¾% Sinking Fund Secured Debentures due 1992	25,000	25,000
9¾% Sinking Fund Debentures due 1983	35,000	—
Steep Rock Iron Mines Limited		
Sundry—due 1977-1981	12,498	—
Other companies	14,940	7,734
	1,314,851	1,099,073
Less: Long term debt maturing within one year	114,325	122,420
	\$1,200,526	\$ 976,653

Except where otherwise indicated, interest on bank loans fluctuates (in certain cases within defined limits) with the lender's prime commercial rate.

At December 31, 1976, foreign currency long term debt translated at current rates would be \$147,440,000, which is \$1,284,000 more than the

amount at which it is carried above.

Annual maturities and sinking fund requirements for each of the five years following 1976 are: 1977, \$114,325,000; 1978, \$119,607,000; 1979, \$99,760,000; 1980, \$59,539,000; 1981, \$87,411,000.

Notes to Consolidated Financial Statements

1. Capital Stock	Each preferred share, series A, is convertible at the option of the holder to November 1, 1977 into two common shares, and is redeemable at CPI's	option at \$20 per share. In 1976 a total of 763,888 common shares was issued on conversion of preferred shares.												
2. Outside Shareholders' Interest in Subsidiary Companies	Outside shareholders' interest in Cominco Ltd. at December 31, 1976 includes \$50,000,000 (2,000,000 shares) of \$2.00 Tax Deferred Exchangeable Preferred Shares Series A, issued in May 1976.	Outside shareholders' interest in The Algoma Steel Corporation, Limited at December 31, 1976 includes \$60,000,000 (2,400,000 shares) of 8% Tax Deferred Preference Shares Series A, issued in April 1976.												
3. Pensions	At December 31, 1976 there were unfunded liabilities, determined by actuarial evaluations, of \$11,600,000 which is being funded by equal annual payments to 1989, \$69,700,000 which is	being funded by equal annual payments to 1991 and \$61,000,000 which is being funded by equal annual payments to 1992.												
4. Commitments and Contingencies	<p>At December 31, 1976 commitments for capital expenditures amounted to \$44,000,000 and commitments under long term leases were estimated at \$301,000,000.</p> <p>At December 31, 1976 PanCanadian Petroleum had incurred costs of \$42,000,000 on equipment and design with respect to an ammonia plant. Due to adverse conditions which developed in 1976 with respect to the sale in the United States of the production from this plant, PanCanadian decided to defer on-site construction, for which there are no outstanding contractual obligations to complete. In 1976 PanCanadian amortized the costs to the extent of \$8,000,000. If the ammonia market in the United States does not improve, these assets may be disposed of. In the opinion of PanCanadian such disposition would not result in any significant loss.</p> <p>A subsidiary of Algoma Steel is participating in a joint venture producing iron ore pellets and is</p>	<p>committed to pay its share of production and financial costs and of funds for debt retirement. Annual requirements to service its share of long term debt will average \$7,100,000 during the next five years. Algoma Steel has entered into agreements under which it may be called upon to invest amounts in the subsidiary which would be available to meet such commitments.</p> <p>An expansion of the production facilities is in progress to be financed by advances from the participants and further long term borrowings. The subsidiary is committed to make its share of advances aggregating an estimated \$15,900,000 during the next three years and to provide funds estimated at an average of \$15,300,000 per year during the five years commencing in 1980 to service its share of the further long term borrowings. This commitment is currently guaranteed by Algoma Steel.</p>												
5. Directors' and Officers' Remuneration	In 1976, CPI had 14 directors and 6 officers. Remuneration paid directly to each group by CPI was \$56,000 (1975—\$54,000) and \$185,000 (1975—\$180,000) respectively. Three of the officers were also directors. In addition certain directors of CPI received remuneration from the undernoted subsidiaries in their capacities as direc-	<p>tors or officers of those companies.</p> <table> <tr> <th></th><th>1976</th><th>1975</th></tr> <tr> <td>Cominco</td><td>\$221,000</td><td>\$222,000</td></tr> <tr> <td>PanCanadian</td><td>140,000</td><td>112,000</td></tr> <tr> <td>Others, principally Algoma Steel</td><td>302,000</td><td>241,000</td></tr> </table>		1976	1975	Cominco	\$221,000	\$222,000	PanCanadian	140,000	112,000	Others, principally Algoma Steel	302,000	241,000
	1976	1975												
Cominco	\$221,000	\$222,000												
PanCanadian	140,000	112,000												
Others, principally Algoma Steel	302,000	241,000												
6. Anti-Inflation Legislation	The Company and certain of its subsidiaries are subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act	effective October 14, 1975. The production of crude oil and natural gas and the rental of real property are exempt from the guidelines published under the Act.												

7. Acquisitions

As the result of a cash tender offer made January 19, 1976, CPI acquired 5,454,275 shares, or 67.64% of the outstanding stock, of Steep Rock Iron Mines Limited by March 3, 1976. Subsequent open market purchases increased the holding to 5,493,475 shares, or 68.13% of the shares outstanding, by December 31, 1976. Steep Rock is a producer of iron ore in northern Ontario, and holds a major potential ore property in that region. Effective July 31, 1976, CPI acquired 99.94% of the outstanding shares of Chateau Insurance

Company, a Canadian company licensed to transact all classes of insurance other than life. Effective November 30, 1976, CPI acquired all of the outstanding shares of Baker Commodities, Inc., a California corporation conducting a rendering business in the western United States. All of these acquisitions were accounted for as purchases and consolidated from the dates of acquisition.

A summary of the assets acquired and the consideration given is as follows:

	(in thousands)		
	Steep Rock	Chateau Insurance	Baker Commodities
Assets, at book values	\$53,369	\$11,035	\$21,291
Liabilities, at book values	18,948	6,257	10,947
	34,421	4,778	10,344
Interest of outside shareholders	(11,118)	—	—
	23,303	4,778	10,344
Adjustment of CPI proportion of assets to fair market values	(6,305)	—	4,229
	\$16,998	\$ 4,778	\$14,573
Consideration given			
Cash	\$16,998	\$ 4,778	\$ 3,939
Notes, 7%, due 1977-1984	—	—	10,634
	\$16,998	\$ 4,778	\$14,573

8. Restatement

In 1976, Cominco changed its basis of accounting for sales applicable to trading activities for the account of others so that only margins realized are included in gross operating revenue. The 1975

figures for gross operating revenue and expenses of Mines and Minerals have been restated to conform with this presentation. This change had no effect on net income.

9. Subsequent Events

In February 1977, Great Lakes Paper approved an agreement to issue U.S. \$20,000,000 8¾% unsecured debentures, due 1984, and arranged to borrow U.S. \$30,000,000 for a term of two years,

the interest rate to be determined when the funds are drawn down. The proceeds of these borrowings will be applied to reduce short term debt.

Five-Year Summary

	1972	1973	1974	1975	1976
Figures in thousands, except amounts per share					
Consolidated income					
Oil and gas	\$ 11,009	\$18,649	\$ 40,317	\$ 59,805	\$ 74,064
Mines and minerals	11,467	20,176	48,723	53,819	32,360
Forest products	4,200	12,437	12,069	1,772	5,236
Iron and steel	—	—	14,172	21,855	13,412
Real estate	3,365	4,712	5,582	7,662	10,423
Hotels and food services	2,960	3,683	4,507	3,330	10
Finance	112	595	780	1,374	2,299
Other operations	—	—	(42)	(409)	801
Investment income	6,856	8,721	4,529	(7,233)	1,521
Income before extraordinary items	39,969	68,973	130,637	141,975	140,126
Extraordinary items	1,936	6,207	—	—	—
Net Income	\$ 41,905	\$75,180	\$130,637	\$141,975	\$140,126
Dividends—Preferred Shares	\$ 4,696	4,674	\$ 2,082	\$ 1,163	\$ 809
—Common Shares	23,727	27,650	35,641	36,315	38,270
Number of Shares Outstanding					
Common	50,135	53,972	58,040	58,727	59,491
Preferred	4,939	3,031	1,379	1,035	653
Per Common Share					
Income before extraordinary items	\$.70	\$ 1.28	\$ 2.29	\$ 2.41	\$ 2.36
Net income	.74	1.40	2.29	2.41	2.36
Dividends	.4733	.53	.62	.62	.645
Market price* —High		16%	18	17%	22%
(Toronto Stock Exchange)—Low		15	11%	12%	14%
Price/earnings ratio—High		12	8	7	10
—Low		11	5	5	6

*Stock first listed in 1973.

Geographic Distribution of Net Property Investment

at December 31, 1976

	Properties at Cost, less Depreciation (millions)	Percent of Total
Canada		
Maritimes	\$ 11	— %
Quebec	170	7
Ontario	907	37
Prairies	651	27
B.C., NWT & Yukon	473	19
	2,212	90
Outside Canada		
United States	145	6
Other	95	4
	240	10
Total	\$2,452	100%

Principal Subsidiary Companies

Canadian Pacific Investments Limited

Room 347, Windsor Station,
Montreal, Quebec
H3C 3E4

Marathon Realty Company Limited

S. E. Eagles, President

Toronto-Dominion Centre,
P.O. Box 375,
Toronto, Ontario
M5K 1K8

Canadian Pacific Hotels Limited

D. W. Curtis, Chairman and President

Royal York Hotel,
Toronto, Ontario
M5J 1E3

Pacific Logging Company Limited

W. M. Sloan, President

468 Belleville Street,
Victoria, British Columbia
V8W 2M3

Canadian Pacific Securities Limited

D. E. Sloan, President

Room 247, Windsor Station,
Montreal, Quebec
H3C 3E4

CanPac Leasing Limited

R. G. Hunkin, President

Suite 210, Place du Canada,
Montreal, Quebec
H3B 2N2

CanPac AgriProducts Limited

D. Corner, Chairman

421 King Street North,
Waterloo, Ontario
N2J 4E4

Commandant Properties, Limited

W. J. Stenason, President

Room 347, Windsor Station,
Montreal, Quebec
H3C 3E4

Chateau Insurance Company

R. T. Riley, Chairman

Suite 2900,
2300 Yonge Street,
Toronto, Ontario
M4P 2X3

*** Cominco Ltd.**

F. E. Burnet, Chairman

200 Granville Square,
Vancouver, British Columbia
V6C 2R2

*** PanCanadian Petroleum Limited**

Robert W. Campbell, Chairman

One Palliser Square,
P.O. Box 2850,
Calgary, Alberta
T2P 2S5

*** The Algoma Steel Corporation, Limited**

John Macnamara, President

503 Queen Street East,
Sault Ste. Marie, Ontario
P6A 5P2

*** The Great Lakes Paper Company, Limited**

C. J. Carter, President

P.O. Box 430,
Thunder Bay, Ontario
P7C 4W3

Fording Coal Limited

M. N. Anderson, President

Natural Resources Building,
205—9th Avenue S.E.,
Calgary, Alberta
T2G 0R4

CanPac Minerals Limited

M. N. Anderson, President

Natural Resources Building,
205—9th Avenue S.E.,
Calgary, Alberta
T2G 0R4

*** Steep Rock Iron Mines Limited**

L. J. Lamb, President

Atikokan, Ontario
P0T 1C0

*A copy of the 1976 annual report of this company
can be obtained by writing to its Secretary at the address shown

Canadian Pacific Investments Limited

Annual Report 1976